11-1955

Farm Families and Social Security

Everett Peterson

Elton Hill

2000 copies -

NORTH CENTRAL FARM MANAGEMENT EXTENSION COMMITTEE PUBLICATION NO. 3

FARM FAMILIES and SOCIAL SECURITY

Agricultural Extension Services of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin; the Farm Foundation and the Extension Service, U.S. Department of Agriculture, Cooperating.

EXTENSION CIRCULAR 531 NOVEMBER 1955

AGRICULTURAL EXTENSION SERVICE
SOUTH DAKOTA STATE COLLEGE
U. S. DEPARTMENT OF AGRICULTURE

CONTENTS

Farm Families and Social Security

Everett E. Peterson and Elton B. Hill [1]

The original Social Security Act of 1935 provided for several types of assistance, including old age insurance for industrial workers. In 1939, this program was broadened to provide benefits for dependents and survivors. In 1950 some farm workers and domestic employees and many nonfarm self-employed persons were made eligible for this insurance. Beginning January 1, 1955, self-employed farmers and additional hired farm workers were included in this insurance program.

OLD AGE AND SURVIVOR'S INSURANCE

Basically the old age and survivor's insurance program is a family group insurance plan operated by the federal government. Self-employed persons like farm operators, and hired workers and their employers pay "premiums" for this insurance while they are earning income. The protection provided for survivors of an insured person is especially important to young farm families, those with children under age 18. The retirement income feature is of more immediate interest to older farmers.

This program, together with adequate life insurance and the accumulation of savings and other property, will provide greater income security for the families of many farmers and farm workers. Social security should be considered as only a part of a family's plan for adequate insurance protection and retirement income.

What are the kinds and amounts of benefits? Three kinds of benefits are provided by the social security program to qualified dependents:

1. Monthly retirement payments to insured persons and specified dependents;
2. Monthly survivor's payments to the families of deceased insured persons;
3. Lump-sum payments of from $90 to $255 upon the death of an insured person.

Table 1 gives some examples of the kinds and amounts of retirement and survivor's payments. The top line lists the minimum payments and the bottom line the maximum payments that may be earned.

---

[1] Everett E. Peterson is extension specialist in agricultural economics at the University of Nebraska; Elton B. Hill is professor of agricultural economics at Michigan State University.

TABLE 1.—Examples of monthly benefits payable to qualified persons after August, 1954.

Average annual net farm income[1]	Average monthly earnings or wages[1]	Retired persons		Survivors		
		Worker	Worker and spouse	Widow, child, etc.	Widow and 1 child	Widow and 2 children
(1)	(2)	(3)	(4)	(5)	(6)	(7)
$ 400	$ 34	$ 30.00	$ 45.00	$ 30.00	$ 45.00	$ 50.20
1200	100	55.00	82.50	41.30	82.60[2]	82.60[2]
1800	150	68.50	102.80	51.40	102.80	120.00
2400	200	78.50	117.80	58.90	117.80	157.10
3000	250	88.50	132.80	66.40	132.80	177.20
3600	300	98.50	147.80	73.90	147.80	197.10
4200	350	108.50	162.80	81.40	162.80	200.00

[1] After drop-out of up to 5 years of lowest (or no) earnings.
[2] Unusual as it may appear, the figure of $82.60 for both one child and two children is correct according to the formula provided by the law.

Is participation in the program voluntary? No, if you qualify it is required. All self-employed farmers and hired farm workers whose earnings come within the provisions of the law must report earnings and pay social security taxes regardless of age.

Is government subsidy or "relief" involved? No, the program is designed to be self-supporting and the amount of revenue from the social security taxes is estimated by actuaries to be sufficient to pay the benefits and administrative costs of the present program. All benefits under this insurance program are paid out of the Old Age and Survivor's Insurance Trust Fund. The Congress makes no appropriation for this at present. The fund is built up by the social security taxes or premiums paid by farmers and other groups included in the program. At the end of June, 1955, the fund had a reserve of $21 billion which, according to law, is invested in interest-bearing government bonds.

RIGHTS AND RESPONSIBILITIES OF FARM FAMILIES

Who Are "Covered" and Required to Pay the Social Security Tax?

Farm operators as self-employed persons. Farm operators—persons farming for themselves as owner-operators, partners participating in a joint venture, or as tenants or share-farmers—who make a *net profit* from farming of $400 or more in a year must pay the social security tax and will be entitled to the protection of the federal old age and survivor's insurance program. This coverage of farm operators as self-employed persons took effect January 1, 1955, for farmers reporting their federal income tax on a calendar year basis, or at the beginning of any fiscal year ending in 1955 for those reporting on a fiscal year basis. It is not necessary to live on the farm in order to be covered. Farm owners who operate their farms entirely with hired help are considered self-employed persons.

Farm workers as employees. Hired farm workers, including farm household help, who are paid as much as *$100 cash wages in a year from any one farmer-employer,* whether the work is regular or not, are included as of January 1, 1955. Regularly employed farm workers have been in the program since 1951. A farm worker now gets credit for one quarter of coverage if he is paid $100-199 in a year from any one employer; two quarters if he is paid $200-299 in a year; three quarters for $300-399; and a full year for $400 or more. Thus, a worker who is paid $100 cash wages by one employer and cash wages of $60 and $70 by two additional employers during the year would get credit for only one quarter of coverage and pay the social security tax on his earnings of $100 from the one employer. Payments received for farm work other than cash wages (for example, board, room and farm products), do not count for social security.

Farm work is *not* covered and social security taxes not paid if the work is done: (1) by the employer's son or daughter under age 21, or the employer's father, mother, wife or husband; (2) by foreign workers lawfully admitted from the British West Indies, or by Mexican contract labor; and (3) in connection with gum naval stores (turpentine, etc.).

Rental income excluded. Share or cash rental income received by farm landlords is specifically excluded by law from income classed as net earnings from self-employment. Farm landlords are therefore not now included in the program unless they receive other income from a covered business or occupation.

An amendment to the Social Security Act was introduced in the 1955 session of the Congress. It was passed by the House of Representatives, but not voted on in the Senate. The proposed amendment would extend social security coverage to income "derived by an owner or tenant of land from the operation of a farm by another individual if the arrangement provides for material participation by the owner or tenant in the farm production." If passed by the Senate in 1956 and signed by the President, many farm landlords now renting their land under crop-share and livestock-share leases would be covered. The proposed amendment as passed by the House also provides that this coverage would be retroactive to January 1, 1955.

How Are Retirement Payments and Survivor's Benefits Earned?

Farmers and farm workers become entitled to benefits by earning enough over a period of time from operating a farm or from cash wages in farming or other occupations that come under the law, and by paying the social security tax (or premiums) on these earnings.

The Social Security Administration uses detailed rules established by law for determining eligibility and figuring payments. In general, payments are based on your average monthly earnings from January 1, 1951, up to the year in which you reach age 65 or die. In figuring average earnings you are entitled to drop out up to four calendar years after 1950 in which your earnings were lowest or in which you were not working in a covered occupation. Since January 1, 1951, is also the starting date for figuring average earnings of newly covered farmers and farm workers, their four-year drop-out is already used up. When you have at least 20 quarters (five years) of covered work, you can leave out one more calendar year of your lowest earnings. After the drop-out, average monthly earnings will be figured by dividing the total taxable earnings in the remaining period by the number of months in that period. If less than 18 months remain, the total earnings will nevertheless be divided by 18.

What is the "disability freeze"? The 1954 amendments also provide a "disability freeze" to protect the insurance rights of persons who have had a certain amount of covered work but who have since become totally disabled. This provision "freezes" the earnings record so that the disability period does not reduce the benefits payable or change the insured status. The requirements for the "freeze" are quite strict, so, if you should become disabled, you or someone else should call or visit the nearest Social Security Office for additional information.

How are benefits figured? Benefit payments are figured by taking 55 per cent of average monthly earnings up to $110 and adding 20 per cent of the next $240. This gives an insured person's "benefit amount" or retirement payment. Payments to members of an insured person's family are certain percentages of this "benefit amount." For example, the wife (or dependent husband) of a retired insured person receives half the benefit amount when she reaches age 65. Total payments to a family cannot exceed 80 per cent of the average monthly earnings or $200, whichever is less. Application of this 80 per cent limit cannot reduce the total family benefit to less than $50 or 1½ times the benefit amount, whichever is larger. Examples of retirement and survivor's payments for different income levels are given in table 1.

When Do Farmers and Farm Workers Become Insured?

The amount of time in "covered" work or self-employment necessary to qualify for payments at retirement and survivor's benefits in case of an insured person's death is very important. Farmers and farm workers who are near or past the retirement age of 65 are very much concerned with the time required to qualify for retirement payments. Younger farmers will want to know how soon their families will be protected by the survivor's insurance phase of the program.

Certain lengths of time in covered work are necessary to qualify for these social security payments. The time varies with the type of benefits, whether survivor's or retirement, and the date a person reaches age 65 or dies. The amount of work required is measured in "quarters of coverage" which are equivalent to calendar quarters or three-month periods. A farmer gets four quarters of coverage for each year after 1954 in which he either reports $400 or more net earnings from farming, or uses one of the optional methods. A hired farm worker gets one quarter of coverage for each $100 of cash wages from any one farm employer in a year, but only four quarters per year.

"Currently insured" status. "Currently insured" status provides death and survivor's benefits primarily and can be attained with a minimum of six quarters of coverage in the last 13 quarters of an insured person's life. A farmer or farm worker covered as of January 1, 1955, will thus be currently insured and his survivors can become entitled to some benefits by mid-1956 provided he earns enough income for the necessary six quarters of coverage before his death.

"Fully insured" status. "Fully insured" status means that some benefits will be paid, not necessarily that the maximum will be paid. It is required for retirement payments to you and certain dependents, and for survivor's payments to a widow or dependent widower over age 65, or to aged dependent parents. Fully insured status generally takes longer to attain than currently insured status, but some special provisions are made for new groups added recently. Fully insured status can be achieved in any one of the following ways:

1. Forty quarters (10 years) of coverage since January 1, 1937, creates fully insured status for life. These 40 quarters do not need to

TABLE 2.—Quarters of coverage needed for fully insured status, regular rule.

Your 65th Year	Jan.-June	July-Dec.	Your 65th Year	Jan.-June	July-Dec.
1953 or earlier	6	6			
1954	6	7	1963	24	25
1955	8	9	1964	26	27
1956	10	11	1965	28	29
1957	12	13	1966	30	31
1958	14	15	1967	32	33
1959	16	17	1968	34	35
1960	18	19	1969	36	37
1961	20	21	1970	38	39
1962	22	23	1971 or later	40	40

be consecutive. Work in any covered occupation and some military service count toward this requirement.

2. At least one quarter of coverage for each two calendar quarters that have passed since January 1, 1951, up to the time of death or of reaching the retirement age of 65. At least six quarters of coverage are required in every case. For this method table 2 shows the number of quarters required according to a person's 65th year.

3. At least one covered quarter (up to 40) for each two quarters that have passed from age 21 to date of death with a minimum of six.

4. Under a special new rule, a person who reaches 65 before October 1, 1958, or who dies after March 31, 1956, and before October 1, 1958, will be fully insured if he has coverage in all quarters after 1954 until he reaches 65 or dies and has earned at least six of these covered quarters after 1954. Table 3 shows the number of quarters required under this method.

A farmer already 65 or older could qualify for retirement payments as early as April, 1956. He would need to report net farm earnings of at least $400 or gross farm income of at least $800, if reporting on a cash basis, *for both 1955 and 1956*. For example, such a farmer who is *sure* of earning at least the minimum necessary annual income in the first three months of 1956 could retire and start receiving retirement payments as early as April, 1956. If he considers a farm sale as a way of receiving this income, he should remember that income from

TABLE 3.—Quarters of coverage needed for fully insured status, special rule.

Date you become 65	No. of quarters	Date you become 65	No. of quarters
Before Oct., 1956	6	Jan.-March, 1958	12
Oct.-Dec., 1956	7	April-June, 1958	13
Jan.-March, 1957	8	July-Sept., 1958	14
April-June, 1957	9	Oct.-Dec., 1958	15
July-Sept., 1957	10	After Dec., 1958	(See Table 2)
Oct.-Dec., 1957	11		

the sale of capital items like machinery, livestock for dairy, breeding, or work purposes, etc., does not count toward social security benefits. He would get credit only for income from the sale of farm products as explained on page 16.

In most cases, it will pay the farmer to continue farming for at least two full years under social security coverage to be sure of earning enough income to qualify for at least the minimum benefit and, if possible, for larger payments than the minimum. For example, if a farmer qualifies for retirement payments on July 1, 1956, but does not apply for these social security benefits until early 1957, his benefit payments would be retroactive to July 1, 1956.

If you have any questions about your own situation, such as when and how you qualify for social security payments, it is recommended that you visit or write your nearest Social Security District Office or talk to the representative of this office on his next visit to your community.

How Do Insured Persons Become Eligible for Retirement Payments?

Farmers and farm workers become eligible to receive retirement payments when they meet *all* of the following conditions:

1. Fully insured status;
2. 65 years of age or older;
3. Retired (see discussion below);
4. Application for payments has been made.

When is a person considered to be retired? A retired farmer or farm worker between the ages of 65 and 72 can earn up to $1,200 in cash wages or from self-employment and still draw all of his retirement payments. If he earns more than $1,200 and works in all months of the year, he will lose one benefit check for each $80 he earns over $1,200. If he does not work in all months of the year, the benefit payment is made for any month in which he earns less than $80 or does not actively engage in self-employment.

When the wife or dependent husband of an insured person who has retired reaches age 65, she or he becomes eligible for a retirement payment equal to half the insured person's payment provided they have been married for at least three years. Payments are also made to a wife (under 65) if she has in her care children (under 18) of a retired insured person until all children are either 18 or married. Payments of this type end with the death of the insured person but his survivors may then be entitled to survivor's benefits.

Planning income for larger retirement payments. Older farmers, especially those who were 63 or older January 1, 1955, may wish to plan for the highest possible net farm income (up to $4,200) in order to qualify for the largest retirement payments possible for their situations. Those whose net or gross farm income is below but near the minimum level for social security coverage should try to increase their net farm earnings enough to be included in the program. Farmers with net farm incomes between $400 and $4,200 may want to strive for average net earnings as close as possible to $4,200. For example, a farmer who reaches age 65 in 1956 can qualify for the maximum benefits if his net farm earnings are $4,200 or more in both 1955 and 1956.

Each farmer should size up his own farm, family and personal situation as a basis for deciding what level of average net farm earnings between $400 and $4,200 he will try to attain. Factors to be considered in making this decision include: the size and organization of his farm; the equity he has in the farm, machinery and livestock; his savings and other insurance; the arrangement planned for transferring the farm operation to a son, son-in-law or other person; and his own physical ability. Increasing net farm earnings will also mean paying higher income taxes but many older farmers will find it to their advantage to pay the additional taxes in order to qualify for larger retirement payments.

Farmers who plan to retire or to partially retire within the next year or two have considerable flexibility in managing income and expenses to increase taxable net income and social security benefits. Where choices of the methods of handling certain items of income and expenses are optional, they may wish to choose the method that will give greater income and smaller deductions for a specific year. Examples of such choices would include: (1) timing of the sale of crops and market livestock; (2) shifting from the rapid depreciation method to the slower straight-line method for grain storage facilities, other improvements, machinery, etc.; (3) electing to treat soil and water conservation costs as capital investments rather than as current operating expenses; (4) disposing of some depreciable capital items to reduce the total depreciation; and (5) in general, reducing operating costs to a minimum.

Supplementing income after retirement. Once a farmer has retired, he can supplement his retirement payments from social security in several ways. A retired farmer or farm worker can work for cash wages or have net earnings from self-employment up to $1,200 a year and still receive all his monthly payments from age 65 to 72. After age 72 he can earn any amount. A retired person can receive any amount of income from rent, dividends on stocks, interest on investments, insurance policies and interest and principal payments from the sale of a farm or other property without losing any retirement payments.

A retired owner-operator has these additional possibilities for increasing or "stretching" his retirement income from social security payments: (1) rent out his land and continue to live in his farm dwelling and raise products for home consumption; (2) rent out land on a crop-share basis and maintain one or more livestock enterprises for self-employment income (up to $1,200); and (3) change from a partnership to a lease arrangement.

What Are the Eligibility Requirements for Survivor's Monthly Payments?

Two conditions must be met for survivors to receive monthly payments: (1) the deceased person must have been "fully" or "currently" insured; and (2) application for benefits must be filed.

Eligible survivors include the following: (1) widow or dependent divorced wife, regardless of age, if she is caring for a child under 18 who is eligible for benefits, and if she married the deceased at least one year before his death or is the mother of his child; (2) widow 65 or over who married a fully insured deceased person at least one year before his death; (3) child under age 18 and unmarried; (4) dependent parent over 65, provided there is no eligible widow or child and that the deceased person was fully insured; and (5) dependent widower over 65 if the deceased was *both* fully and currently insured.

Some conditions will permanently stop survivor's benefits; others will cause only temporary suspension. Remarriage of a widow will stop her benefits, but will not stop payments to her children under 18. Marriage of a child under 18 will stop that child's benefit payment. Adoption of a child by anyone except his stepparent, grandparent, aunt or uncle will stop the child's benefit. Working for more than $1,200 a year will cause temporary suspension of benefits for some of the months of the year, depending on the amount earned and the number of months worked. When the youngest child reaches age 18 his payment stops and the mother's payment also stops. Her payment does not start again until she is 65 *and then only if the deceased was fully insured at death.* In planning an insurance program, farm families should arrange to cover this important gap in survivor's protection.

What Is the Lump-Sum Payment?

A lump-sum payment is made upon the death of an insured person. This payment can be as much as three times the monthly retirement but not less than $90 nor more than $255. It is in addition to monthly survivor's payments and is made to the widow or widower, or to the person paying the burial expenses if there is no surviving spouse.

What Does Old Age and Survivor's Insurance Cost?

Farm operators pay the social security tax like other self-employed persons. Until 1960, this is 3 per cent of net farm profit from $400 to $4,200 a year. If a farm operator has covered wages in addition to his farm earnings, he pays social security taxes only on enough farm earnings to bring his total wages plus farm earnings to $4,200. The smallest social security tax a farmer will now pay in a year is 3 per cent of $400 or $12. The largest social security tax in a year is now 3 per cent of $4,200 or $126.

For hired farm workers, the social security tax is 4 per cent of cash wages. Two per cent is withheld by the employer from the employee's cash wages. The employer matches this with a like amount and sends the total to the Internal Revenue Service with the employer's report. The farmer-employer must file reports and withhold and pay taxes for each employee to whom he pays $100 or more cash wages in a year.

Beginning in 1960 the social security tax rates on self-employment income and wages increase according to the following schedule (unless changed by Congress):

TABLE 4.—Social security tax rates as provided by the 1954 Amendments to the Social Security Act.

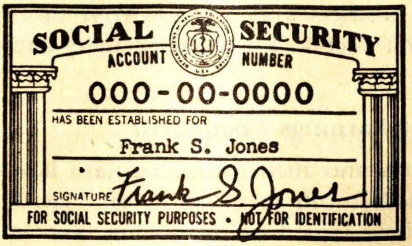
Period	Farm operators	Hired farm workers	
	Percentage of net earnings	Percentage of cash wages	
		Employer	Worker
1955-59	3	2	2
1960-64	3¾	2½	2½
1965-69	4½	3	3
1970-74	5¼	3½	3½
1975 and after	6	4	4

REPORTING EARNINGS AND PAYING THE TAX

Reporting earnings from self-employment and cash wages, and computing and paying the social security tax will involve some additional figuring, filing of returns, and money for taxes beyond those required for income tax. The figuring and reporting has been kept to a minimum by using the income tax procedure as much as possible.

What Account Numbers and Other Records Are Needed?

Account-number cards. Every farmer and farm worker who comes under the program will need a social security account-number card. The number on this card is used to identify the individual's social security account and should be on every report of earnings and social



security taxes paid. If you never had such a card or had one and lost it you can get one by filling out Form SS-5, which is available at your post office or nearest Social Security Office, and taking it or mailing it to your closest Social Security Office. If you previously had a number you should apply for a duplicate of your old number, not a new number.

Employer's identification number. If you hire workers covered by the program, you need an employer's identification number *in addition to* your own social security account-number card. This employer's identification number can be obtained by filling out Form SS-4A and sending or taking it to the District Director of Internal Revenue. This form is available at the Social Security and Internal Revenue Service district offices. After this application has been filled out and filed with the Internal Revenue Service, you will receive your number and information about the social security tax and, at the proper time, you will also receive the necessary return forms. Part of the letter informing you of your employer's number is shown below.

DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION

BUREAU OF OLD-AGE AND SURVIVORS INSURANCE

IN REPLYING, ADDRESS:
SOCIAL SECURITY ADMINISTRATION
DISTRICT OFFICE

NOTICE OF EMPLOYER'S IDENTIFICATION NUMBER
UNDER FEDERAL INSURANCE CONTRIBUTIONS ACT

00-0000000
A

Mr. John A. Farmer

RFD

Anytown, U. S. A.

This is to notify you that the employer identification number shown above (the number with the nine digits and the letter "A") has been assigned to you by the District Director of Internal Revenue. The purpose of this

---

What records are essential? The necessity for making reports and paying social security taxes is another reason for having good farm records. Reliable information is needed when reporting your own farm income and expenses as well as cash wages paid to farm workers. Record books available from the Extension Service in each county and other books prepared by commercial concerns are helpful guides to proper records and encourage record keeping. Analysis of these records will help you improve your business and increase your farm income as well as provide information needed for social security and income taxes.

How Are Self-Employment Earnings Computed?

The 1955 federal income tax forms and instructions explain how to figure your net earnings from self-employment and your social security tax in addition to your income tax. Compute your taxable net earnings for social security purposes on page 4 of Schedule F of Form 1040 (formerly 1040F). You must also complete Schedule SE on the bottom of page 4. Accrual-basis farmers may use page 3 of Schedule C for this purpose. Be sure to enter your social security account number on line 5 of Schedule SE. Your income and social security taxes are paid *at the same time* to the District Director of Internal Revenue, so you should plan your finances to have funds for both of these taxes when due. In computing your self-employment income from farming for social security purposes you will need first to determine your gross income and secondly to figure your actual net earnings from the farm. The same method of accounting must be used for both social security and federal income taxes.

Computing gross farm income. Farm income often comes from many sources. Only such items as represent the income from farming operations can be included in computing net farm earnings for social security purposes. The major income items to be included (unless attributable to excluded rental income) in determining your gross farm income are:

1. The usual cash receipts from sales of farm products such as crops, milk or cream, eggs, poultry and meat animals;
2. Fair market value of merchandise received for farm products;
3. Crop damage payments, such as hail insurance;
4. Taxable commodity credit loans;
5. Sale of standing crops, if not sold with land held more than six months;
6. Custom farm work done off your farm;
7. Agricultural conservation program payments;
8. Breeding fees received;
9. Prizes or awards on farm produce or livestock at fairs, etc.;
10. Taxable cooperative patronage dividends.

Major income and loss items that are *not* included in figuring your gross income from farming are:

1. Rental income whether in cash or as shares of your crop or livestock;
2. Gain or loss from the sale or trade of the following regardless

of how long held: dairy, breeding or work stock whether raised or purchased; and depreciable property such as machinery and equipment;

3. Capital gains or losses from the sale, exchange or involuntary conversion of investment property such as land, buildings and other assets not held primarily for sale to customers;

4. Gain or loss from the sale of standing crops sold with land held more than six months;

5. Net operating losses deductible from other years;

6. Payments from insurance for damage to capital assets such as buildings, machinery and dairy, breeding or draft livestock;

7. Wages received as an employee;

8. Interest, dividends on shares of stock, or any other income or loss not resulting from the operation of your farm business;

9. Personal deductions and exemptions allowed on Form 1040;

10. Value of farm products used by the farm family.

Computing net farm earnings. In general, "net earnings from self-employment" is the gross farm income less the deductions allowable for income tax purposes. Self-employment income subject to tax is limited to $4,200, less any wages subject to social security tax that were received during the taxable year.

Farm expense items which must be deducted from the gross farm income include such items as hired labor; feed purchased; seeds and plants; depreciation, repairs and maintenance of farm machinery, equipment, farm buildings (except the operator's dwelling), fences, farm drains and permanent erosion control structures; breeding fees; fertilizers; veterinary fees and medicine for livestock; oil, gas and other fuel for the farm business; storage and warehousing; taxes and insurance on farm property (except for the operator's dwelling); interest on farm business debts; water rent or charges; the farm share of electricity and telephone; cash rent paid for the farm, fields or pasture; freight, yardage, express and trucking; farm share of auto upkeep; soil and water conservation expenses; and other expense items involved in the operation of the farm business.

Options which may be used by "cash basis" farmers. A farmer with a small income from self-employment in farming who reports on a *cash basis* may wish to use the optional method of reporting earnings for social security purposes. The use of the optional method often makes it possible for a farmer with low earnings to get coverage for years in which net farm earnings were less than $400. This optional method permits a farmer with actual net profit of under $900 to have assumed net earnings equal to half of his gross farm income up to a maximum credit of $900. The gross farm income must be at least $800 before he can use the option, otherwise half would be less than $400. There is no reporting for social security unless the net income as figured by either the regular or optional method is at least $400. This is illustrated in table 5. For example, in line 4 of table 5, a farmer who has a gross farm income of $900 with net income of less than $400 would not be subject to social security tax under the regular method of reporting. However, the optional method would permit him to report, as earnings from self-employment, half of his gross farm income, or $450.

TABLE 5.—Income requirements of the regular and optional methods of reporting earnings if on a cash basis.

Gross income	Net farm earnings	Amount to be reported	
		Regular method	Optional method
(1) Under $ 400	Under $ 400	None	None
(2) $400-$ 799	Under $ 400	None	None
(3) $400-$ 799	$400-$ 799	Actual net profit	None
(4) $800-$1800	Under $ 400	None	One-half gross
(5) $800-$1800	$400-$1800	Actual net profit	One-half gross
(6) Over $1800	Under $ 400	None	$900
(7) Over $1800	$400-$ 899	Actual net profit	$900
(8) Over $1800	$900 & over	Actual net profit	Actual net profit

If changes in your accounting procedure are desired in reporting your federal income tax (for example, from the accrual to the cash basis) then the approval for such a change must be requested of the Internal Revenue Service sometime during the first 90 days of your tax year.

How will partnerships report? In a legal farm partnership, each partner is considered a self-employed person and thus pays his social security tax and after qualifying is eligible for old age and survivor's insurance benefits. The essential features of an acceptable partnership arrangement are discussed on page 24. A partnership as such does not pay an income or social security tax but an information return must be filed by the partners on Internal Revenue Form 1065.

Form 1065 is primarily an "informational" report. In filling out the income section, page 1 of Form 1065, the partners will in most instances find it easier first to fill out Schedule F (formerly called Form 1040F) in detail. Schedule F must, however, be filed by all farmers reporting on a cash basis. The "Gross profits" figure of Schedule F should be transferred as a total figure to line 1 of Form 1065, "Gross profits from the business." Likewise, the figure for "Total deductions" is transferred from Schedule F to Form 1065. The "Net farm profit" on Schedule F is transferred to the "Ordinary net income" line of Form 1065. On page 1 of Form 1065 a statement should be written to the effect that the details of the financial statement are given on the attached Schedule F.

For most farm partnerships the Schedules D (if applicable), J, and K on pages 2 and 3 of Form 1065 must be filled out. The partners should then fill out the "Additional information required" as indicated on the bottom half of page 4. Form 1065 is then completed by filling in the "Signature and verification" at the bottom of page 1.

One copy of Schedule F of Form 1040 is then attached to one copy of Form 1065 and sent to the District Director of Internal Revenue by only one of the partners. Each partner should, however, keep a copy of the 1065 report and of Schedule F for his own files. Each partner should list the amount of his share of the ordinary partnership business income on line 1 of Schedule H on page 3 of his Form 1040. Income other than ordinary business income, such as capital gains, should be listed in the other appropriate schedules of Form 1040. When filing his 1955 federal income tax return on Form 1040, each partner will have to attach the special schedule which shows the amount of his self-employment income and his social security tax.

How Are Cash Wages Reported and Taxes Paid for Farm Workers?

Regular and seasonal workers. Any farmer who pays a farm worker $100 or more cash wages in a year must report all cash wages up to $4,200 paid to that employee in the year and send the social security tax of 4 per cent of taxable wages to the Internal Revenue Service. Two per cent of cash wages is the employer's tax and the additional two per cent is the employee's tax. The $100-a-year test applies separately to each farm worker employed.

A farmer who pays a total of less than $2,500 in cash wages to all of his farm workers covered by social security makes only one report and one payment of taxes in the year. This report for 1955 is made on Form 943 and is filed with the District Director of Internal Revenue by January 31, 1956, along with the social security tax payment for each employee who meets the $100-a-year test. The farmer's employer identification number and each worker's name, social security account number, and cash wages must be shown on the report.

A farmer-employer who pays a total of $2,500 or more of taxable cash wages to all of his farm workers by the end of the first, second or third quarter of the year and who therefore has a social security tax liability of $100 or more ($2,500 x 4 per cent=$100) will have to file a report and pay the tax due before the end of the year. This report of cash wages paid and social security tax due is made on Form 943A. It must be filed with and the tax paid to the District Director of Internal Revenue before the last day of the next month after the end of the calendar quarter in which the $100 tax liability is reached.

By January 31, 1956, the final report must be made on Form 943 and any additional tax paid.

Effective January 1, 1956, however, a change will be made in the existing procedure for the reporting and payment by farmers of social security taxes for farm workers. The present reporting system will be simplified by (a) eliminating quarterly returns on Form 943A, and (b) requiring the farmer to deposit the taxes on a cumulative basis so that he will deposit the taxes after any month or series of months (other than December) in which his tax liability totals more than $100 even though his liability for any month may be less than $100. For example, a farmer-employer whose taxes for workers hired in 1956 total $34 per month during the year would make deposits of $102 on April 15, July 15, and October 15. He could deposit $102 for the fourth quarter in January of the following year if he so desired. He would make one return for the year on Form 943. The return would be due January 31 unless the entire tax was timely paid by means of depository receipts, in which case the return would be due on February 10. These deposits are made with a Federal Reserve Bank or authorized commercial bank. Forms and instructions are obtained from the District Office of Internal Revenue.

The law does not specify when the employer should make the social security tax deductions from the worker's wages. Thus, the social security tax may be deducted from the first cash wage payment or the employer may wait until the worker is paid at least $100 or more during any one year. If the worker from whom the tax is collected does not earn $100 cash wages, the amount of tax deducted should be returned to the worker by the employer.

Contract labor. Some specialized farming areas depend upon seasonal farm workers hired in crews or gangs for the production and harvesting of special crops such as fruit, vegetables, and sugar beets. A farmer may obtain his own help directly from labor sources available in surrounding towns or he may obtain the needed labor through a contractor, growers' association, food processor or other source.

The question then arises: Who is responsible for collecting and paying the social security tax? The actual employer is responsible for the tax payments. The basic rule for contract farm workers is that the farm operator is the employer when he retains the right to exercise control over the farm worker as to time, place, manner and means of performing the work. In such instances, the farmer-employer is responsible for keeping the employee's wage record, collecting the tax, and making the tax payment. On the other hand, where the labor-contractor has that right of control over the workers, then he is the employer and is thus responsible for collecting and paying the tax. In some cases the crew leaders or contractors as well as the workers may be employees of the farmer.

Entire families sometimes work in the fields. If a farmer hires several members of a family to work for him he is responsible for keeping a wage record, collecting the tax and reporting for each member of the family. A farmer sometimes hires the head of the family to perform certain jobs and, although nothing is said about other members of the family working, they come along and help. If cash wages are paid only to the head of the family, the earnings may be reported and the tax collected and reported as if they had all been earned by the family head who alone was hired by the farmer.

CAN FARM LANDLORDS ATTAIN COVERAGE?

Rentals from farm real estate (like rentals from other real property) and from personal property leased with the real estate, such as machinery and livestock, are not considered as earnings for social security coverage under the present law. The 1954 Amendments to the Social Security Act specifically exclude such income from the computation of net earnings from self-employment. The farm landlord who leases his farm to a tenant is not considered as self-employed and his rental income is not subject to the social security tax. The type of lease (cash, cash-share, crop-share or livestock-share) does not matter.

Some farm landlords who do not have covered income from other sources may wish to change the tenure arrangements on their farms to permit participation in the program. Qualifying for social security retirement payments can be an important method of supplementing retirement income. Receiving social security payments may thus make it possible for many retired farmers to have a better level of living and to transfer the farm or farm operations to a son or other person earlier than otherwise.

How Can a Landlord Become "Covered"?

Farm landlords as property-owners renting out farms and farm land under short-term leases have the right to change the tenure arrangement at the end of the lease period so that the owner's income is covered for social security purposes. This can be accomplished in several ways but each method involves changes in lease arrangements, in investments and expenses, in risk and liability or in managerial responsibility, all of which should be carefully considered before major changes in tenure arrangements are made. (The extension of coverage to landlord's income under some share-farming arrangements by further amending the Social Security Act is also a possibility. See pages 7 and 8.)

Under the present law, a farm landlord must become either a self-employed person or an employee in order to become insured under the social security program. Suggestions as to how this may be done are as follows:

1. Terminating the lease at the end of the lease period and operating the farm himself, using such hired labor and custom work as he needs; or using a guaranteed wage plus a bonus share of the products sold above a specified cash income for the hired labor he needs;

2. Forming a bona fide partnership with a son, son-in-law, present tenant or other person;

3. Incorporating the farm business and paying the owners and operators cash salaries or wages as employees of the corporation;

4. Obtaining employment as a farm worker or as an employee in another covered occupation, or earning self-employment income in a business other than farming.

Points landlords should consider. The important questions for a farm landlord to consider before changing from his present lease arrangement to one of the methods listed above are:

1. What will be the effect upon landlord-tenant relationships during and after the qualifying period?

2. What will the change cost him in added investments and expenses?

3. Can he be sure of earning sufficient net income to justify making the change?

4. How will the change affect his risk and liability?

5. Does he have the ability and willingness to operate his farm under the proposed change in tenure arrangement?

6. What problems will be encountered in changing the tenure arrangement again after he becomes eligible for retirement payments?

Questions for farm tenants. A farm tenant should consider the following questions before agreeing to a proposed change:

1. Is he willing to work as an employee or as a partner of the owner for the required period?

2. How will the proposed arrangement affect his liability, investment, expenses and net income?

3. Will the new arrangement change his own status under the social security program?

When a Landlord Resumes Farming

A farm landlord can qualify as a self-employed farmer by farming all or part of his land. A landlord who owns more than one farm could operate one of them himself, or part of one, to obtain the required self-employment income. If his land is now rented on a crop-share basis, he could feed his share of the crops to livestock which he might purchase or raise and care for himself, but the value of the crops fed must be deducted as an expense. He can also have the farm work done with hired labor and custom operators.

Terminating the lease at the end of the lease period and taking over all or part of the farm is a serious step that should be considered carefully. If the entire farm is taken over for operation by the landlord, the tenant must find another farm to rent or seek employment as a farm worker or in another occupation. If the landlord takes over part of the land to operate himself, the tenant will often be left with a farm unit so small that he is unable to earn a satisfactory income. Also, the landlord may not have a large enough farming operation to earn the minimum net income.

Operating the farm himself. Many farm owners sold their machinery and livestock when they rented out their land. A landlord who returns to farming all or part of the land himself will have to purchase the necessary equipment or hire field work done on a custom basis. If a farm owner has been retired for several years, he will find that new machines, crop varieties, insecticides, and fertilizers are now being used. He will have to become familiar with new techniques in order to farm successfully. He should consider whether his health will permit him to do the physical work of operating a farm. If he operates the farm with hired help, he must find suitable employees and supervise them. With custom work, he must see that land preparation, seeding, cultivating, spraying, and harvesting are done at the proper time.

Hiring the work done. The present tenant might be employed as a farm manager. Such an arrangement would provide coverage for the owner as a self-employed farmer and the person hired would also be covered as an employee. A true employer-employee relationship must exist, however, and cash wages must be paid. If the person hired receives a share of the crops and/or livestock and his share depends on production, the arrangement is classed as share-farming and the landowner is not covered. This means that continuing the present lease arrangement, and merely calling the tenant an employee, will not obtain coverage for the landlord.

Generally an employer-employee relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services. The right to discharge is also an important factor in determining employer status.

Other indications of an employer-employee relationship are that the employer pays all farm operating expenses, furnishes tools and equipment, pays wages at regular intervals and in set amounts, determines time and place of work, furnishes the necessary investment, and is liable for actions of the employee while in the conduct of the farm business. The mere designation of employer and employee as such is immaterial.

Other problems that may arise in an employer-employee arrangement with the present tenant are: whether the tenant will be satisfied to work as an employee for the period required for the owner to qualify for social security benefits; and whether a satisfactory arrangement can be made for the use of the tenant's machinery and still retain coverage for the landlord.

Operating as a Farm Partnership

This could be accomplished by forming a bona fide partnership with a son, son-in-law, the present tenant or another person. Farming may be done under a partnership or joint venture arrangement the same as any other business enterprise. (A "joint venture" may be considered a partnership of limited duration or purpose.) In a true partnership arrangement, each partner is considered to be self-employed, and his share of the partnership profits is covered by social security. Merely calling the present lease arrangement a partnership will not make it such for social security purposes.

The general features of a partnership are that each of the partners contributes as agreed to the farming operation. If there are losses, each will bear a share. Profits are also shared. The members are individually and jointly responsible for the debts of the partnership. Usual indications of a partnership are that the members use a partnership name in dealing with others, have a joint bank account, and that each of them takes part in making decisions regarding management and control of the farm. Father and son farming arrangements operating in this way are true partnerships.

Useful evidence of a partnership would be a written agreement, partnership accounts at the bank and at supply houses, farm record books showing the contributions and distributive shares of each partner, reporting partnership operations for income tax purposes on Form 1065, and other material showing joint interest in the farming operation. The way the business is conducted as well as the intentions of the parties entering into the agreement establish whether it is a partnership.

A share-farming or "share-cropping" arrangement bears some likeness to a partnership. However, in the typical share-farming arrangement there is no intent or agreement to form a partnership but merely an agreement to share the crops or proceeds. Many of the usual indications of a partnership are lacking, such as joint liability for debts, holding out as partners, and joint bank accounts.

Incorporating the Farm Business

In a corporation, the owner and an operating son or "tenant" would be covered if they were paid cash wages or salaries as employees of the corporation. Incorporation is a rather complicated and sometimes expensive process and the legal requirements vary from state to state. Persons should become well informed as to tax liabilities of corporations, the costs of incorporation, and the current records and annual reports involved before deciding to incorporate to attain social security coverage.

Obtaining Coverage as an Employee or from Self-Employment in Another Business

A farm landlord may earn income that will count for social security by hiring out for cash wages as a farm worker, by getting a nonfarm job in a covered occupation, or by earning self-employment income in a business other than farming. However, he cannot obtain coverage by working for his son, daughter or spouse. He can work for his tenant or another farmer provided the tests of a true employer-employee relationship as discussed on page 23 are met. Actual services must be performed in order to obtain social security credits.

This method for farm landlords to obtain coverage under social security will cause no disruption in farm tenure arrangements. Little or no investment or expense would be required in working as a farm hand or other employee. Considerable investment and risk might be involved in some types of nonfarm business.

Participating in the social security program by working at a nonfarm job or engaging in a nonfarm business may be difficult because of age, physical condition and lack of training and experience. Some farm landlords may already have coverage because of earnings in other covered occupations. They should check their insured status with the nearest Social Security Office.

Check Arrangement Carefully

Any arrangement for obtaining social security coverage should be checked carefully with the Social Security Administration and the Internal Revenue Service to make sure that it legally qualifies the parties involved. The actual working relationships between the landowner and the farm operator will be more important than the name of the agreement. In any method proposed, a written agreement or memorandum of understanding as to the plan to be followed is highly desirable.

GENERAL COMMENTS

The full impact of the 1954 Amendments to the Social Security Act on farming, farmers and farm workers is yet to be discovered. Will farmers retire earlier or later than in the past? Will they sell or continue to own their farms earlier or later? Will the amendments affect farm land values and if so how and how much? What adjustments will be made in finances for family living or the business in order to pay the social security tax?

How will the program affect a farmer's or farm worker's plans to continue to build up his own security for old age through savings, by accumulating private property and by an adequate insurance program with commercial insurance companies? In general, it is believed that farmers and farm workers will be well advised to make additional provisions for death and for security in old age. The social security program is not designed to replace but rather to supplement the individual's own insurance and savings program.

Old age and survivor's insurance does not build up estates, as do some types of insurance. In order to start receiving benefit payments (for other than the small lump-sum payment at death) either the insured person or his wife must live to and past the age of 65—or have surviving children under 18 years of age.

Many farmers and farm workers do not carry adequate life insurance for the protection of their families. Furthermore, many persons do not have adequate reserves for old age. This program together with additional life insurance and savings and investment should help to provide greater security to the families of many farmers and farm workers.

On the basis of our present knowledge of the law, it appears that the new amendments to the social security program should help to give greater stability to farming. Farmers and farm workers may be able to work out an earlier and more satisfactory retirement program. This may make it possible for an interested son to take over the management of the home farm business at an earlier date than has been convenient in the past. The program may also be a great help in making family plans for earlier transfer of the home farm to the farm operating heir. In the past, this transfer, or plan for such a transfer, has often been delayed too long. The results in many instances have been dissatisfaction by the son and his family and real losses to the parents.

QUESTIONS AND ANSWERS

1. What are the social security benefit payments in the following situation? A young farmer, age 33, is killed in a farm accident. The survivors are his widow, age 31, one child, age 8, and one, age 10. The husband was "currently insured" under social security and his average yearly earning record was $2,400.

Answer: The monthly benefits for eight years or until the oldest child reaches age 18 would be $157.10 a month or a total of $15,081.60. For the two additional years required for the youngest son to also reach age 18 the monthly benefit payments would be $117.80 or a total of $2,827.20. Thus the total benefit payments until both children reach 18 would be $17,908.80.

2. Is a birth certificate required in order to receive social security payments?

Answer: No. If a birth certificate is available it is usually considered as acceptable evidence. Other records are also acceptable such as baptismal certificates, family Bible, school, lodge or military records, and insurance policies.

3. Farmer A died at age 60. Can Mrs. A use his social security number and continue the farm business or does she have to get her own number? Do his quarters of coverage accrue to her?

Answer: She must get her own social security number. Quarters of coverage never accrue to another person. The widow must start building her own coverage.

4. A farmer's son carries on special activity (such as 4-H or FFA projects) all by himself. Is he self-employed?

Answer: Yes. If his net earnings amount to $400 or more he must get a social security number, file a tax return and pay the self-employment tax regardless of how young he is.

5. A farmer is now 30 years old. Will he have to continue paying the social security tax after he has 40 quarters of coverage and fully insured status?

Answer: Yes. He must report earnings and pay the tax so long as he has taxable wages or self-employment income, regardless of age or insured status. Furthermore, the amount of his benefit depends upon the *average* of earnings to his account throughout the period he is under the program. Although he might be permanently insured for *some* benefits, his benefit *amount* would be sharply reduced if the average earnings were not maintained up to the time of his retirement or death.

6. Do both the husband and wife need social security account numbers?

Answer: Not normally. If the husband and wife are not actual business partners, even though both help out on the farm, the net earnings go only to the one who has the management and control of the farm. Usually this is the husband, and the net earnings for social security purposes should be reported for him alone. This is so even though they file a joint income tax return. The wife can qualify for social security benefits based on her husband's earning record without having a social security number of her own.

7. Can a son hire his father in order to qualify the father for social security benefits?

Answer: No, if the son employs his father, the father's wages are *not* covered by social security. A parent working for his child is never covered. Children under age 21 working for their parents are not covered.

8. How about the proceeds of a farm sale? Do they count in figuring eligibility for social security benefits?

Answer: Only amounts received for harvested crops and market livestock (except dairy, breeding or work stock) can be counted. Amounts received for sale of the following types of items cannot be counted for social security: equipment (tractors, balers, combines, etc.); land and improvements; dairy, breeding and work stock; crops sold with the land, where the land has been held for more than six months; any other capital assets.

9. Can a landowner obtain coverage by changing his crop share arrangement with his tenant so that the landowner sells the entire crop and gives the tenant a proportionate share of the proceeds?

Answer: No. The fact that the landowner took the entire crop and paid the tenant a share of the proceeds instead of each one taking his own share at harvest time would not change the picture so far as rental income is concerned.

10. What happens if a farmer works on a job in town in addition to operating his own farm?

Answer: He will use the same social security number for both kinds of work. When he applies for his social security benefits the credits from both sources will be added together up to $4,200 a year and his eligibility for benefits will be based on the combined record.

11. How about a limited partnership; can a farm owner get social security coverage as a limited partner?

Answer: Yes, provided limited partnerships for farming purposes are authorized by the statutes of the state in which the partnership is contemplated, and provided the statutory requirements for such partnerships are strictly followed. If you are considering forming a limited partnership you should first check on the provisions of your own state laws regarding this type of partnership.

FOR ADDITIONAL INFORMATION

In general, information about social security coverage should be obtained by either a visit or a letter to your nearest Social Security Office. District offices, located in major cities in all states, can furnish information (1) as to when you are currently or fully insured; (2) what earnings are considered in computing the amount of your coverage; and (3) other questions relating to this phase of social security. Information on taxes can be obtained from any district office of the Internal Revenue Service. Representatives from these offices also regularly visit county seat towns and other communities.

THIS PAGE FOR NOTES

THIS PAGE FOR NOTES

NORTH CENTRAL FARM MANAGEMENT EXTENSION COMMITTEE

State Members:

George B. Whitman, University of Illinois
J. Carroll Bottum, Purdue University
H. B. Howell, Iowa State College
J. H. Coolidge, Kansas State College
E. F. Daniel, University of Kentucky
John C. Doneth, Michigan State University
E. H.M. Hartmans, University of Minnesota
C. E. Klingner, University of Missouri
Everett E. Peterson, University of Nebraska
H. W. Herbison, North Dakota Agricultural College
L. H. Barnes, Ohio State University
A. W. Anderson, South Dakota State College
Peter Dorner, University of Wisconsin

Farm Foundation:

Joseph Ackerman
Howard G. Diesslin

U. S. Department of Agriculture:

J. B. Claar, Federal Extension Service

Administrative Adviser:

W. B. Wood, Director, Ohio Agricultural Extension Service

SOCIAL SECURITY PUBLICATION SUBCOMMITTEE

E. F. Daniel, University of Kentucky
John C. Doneth, Michigan State University
E. B. Hill, Michigan State University
A. M. Nichter, Purdue University
Everett E. Peterson, University of Nebraska, Chairman